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SUBJECT: PRESIDENT KIRCHNER'S FEB 21 VISIT TO VENEZUELA: ECONOMIC
COOPERATION ON DISPLAY

Ref: (a) Buenos Aires 55

(b) 06 Buenos Aires 2240

Summary

¶1. (SBU) President Kirchner travels February 21 to Puerto Ordaz, Venezuela with an agenda that is principally economic: He will seek to confirm GoV assistance in placing up to \$2 billion in new Argentine sovereign debt; finalize \$135 million GoV rescue funding for SanCor, an emblematic Argentine dairy cooperative; and discuss expanded cooperation between GoA national oil company ENARSA and the GoV's PDVSA in a possible joint exploration and development activity in Venezuela's Orinoco region. Other likely topics of conversation will include the proposed \$20-billion-plus Venezuela to Argentine natural gas pipeline (discounted by energy experts here as not economically viable) and a \$240 million contract for an Argentine shipyard to build four petroleum product tankers for PDVSA using Venezuelan steel. Our GoA contacts continue to emphasize that Argentina's relationship with Caracas remains pragmatic and principally driven by economic considerations, and that they share neither Chavez's social ideology nor his Bolivarian ambitions. END SUMMARY

Argentina Seeks Additional GoV Bond Support

¶2. (U) President Kirchner's planned February 21 visit is currently being advanced by Planning Minister De Vido and Santa Fe province Governor Obeid (where SanCor is based). The final Kirchner delegation will include Minister De Vido, Economy Minister Miceli, her Finance Secretary Chodos and her Legal Secretary Palomenque.

13. (SBU) Embassy Economy Ministry contacts report that ongoing GoA/GoV discussions may lead to the announcement during Kirchner's visit of the GoV's purchase of a new "Boden" bond issue and/or a second joint bond issue (the "Bono del Sur II" - Ref B). Local media is speculating that the GoV may purchase up to \$2 billion in GoA bonds, roughly one-third of GoA's planned financing of about \$6-7 billion for 2007. A new joint bond could be similar to the initial Bono del Sur issued in November 2006, a package of (1) a Venezuelan bond denominated in Bolivars, and (2) a dollar-denominated Argentina bond. There were no cross default clauses in the original Bono del Sur issue; international financial markets called the exercise largely cosmetic and quickly stripped out its component bonds for independent trading.

SanCor Dairy Cooperative Rescue

14. (SBU) Planning Minister De Vido and Santa Fe Governor Obeid are now in Caracas wrapping up an agreement whereby the GoV's state-owned Banco Nacional de Desarrollo Economico y Social de Venezuela (BANDES) will provide a \$135 million assistance package to Argentina's second largest dairy cooperative, SanCor, in exchange for long term payments in the form of powdered milk and technology transfer. Our Planning Ministry contacts report some GoA annoyance at repeated GoV delays in finalizing this SanCor assistance package; this delay has also been widely reported in the local media. The financially troubled dairy cooperative was to have been sold to a Soros-linked investment fund before this GoV "rescue offer" was accepted by SanCor in the fall of 2006.

Joint ENARSA and PDVSA Exploration

15. (SBU) Planning Ministry contacts report that Kirchner and Chavez will also sign an agreement to have GoA national oil company ENARSA (formed in 2004) participate with the GoV-owned Petroleos de Venezuela (PdVSA) in an Ayacucho upstream exploration block in Venezuela's Orinoco region. Independent energy analysts in Buenos Aires note GoA efforts to encourage Argentine private sector participation in this exploration initiative, with the Techint Group's Pluspetrol and Tecpetrol being courted as potential joint venture partners. These analysts see any GoA/GoV petroleum exploration agreement as largely symbolic, pointing out that ENARSA brings little to the table in the way of financial resources. (Note: ENARSA has virtually no capital; its assets consist of the ownership of all survey/concession rights of as yet unawarded Argentine offshore fields. End Note.)

Ship Construction

16. (SBU) In a deal originally structured in 2004 and valued at up to \$240 million, an Argentine shipyard in the province of Buenos Aires, Astillero Rio Santiago, is to build up to four petroleum product tankers for Petroleos de Venezuela (PDVSA) in a joint venture with PDV Marina, a PDVSA affiliate, and Diques y Astilleros Nacionales de Venezuela. The vessels are to be constructed using Venezuelan steel. While the first ship, the 47,000 ton "Eva Peron," was due to be completed in 2007, Planning Ministry officials report significant delays. Under the original agreement, construction of the two final ships is contingent on timely delivery of the first two.

Comment

17. (SBU) The promise of a second round of Venezuelan debt funding appears to be the key GoV deliverable that President Kirchner hopes to take away from this visit. The Casa Rosada continues to tell us that the relationship with Caracas remains principally commercial, and that they don't share Chavez's ideology or put much stock in his

Bolivarian ambitions. Prominent Argentine political and economic analysts told the Ambassador last week that, on the one hand, most South American leaders do not want to get too close to Chavez, but on the other do not want to do anything to upset him. The GoA will continue to exploit what they see as an important economic and commercial relationship with Venezuela while downplaying, at least to the U.S., its political significance.

WAYNE